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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Members of the Board of Regents, State of Iowa

We have audited the financial statements of the University of Northern Iowa (University) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 30, 2012 under separate cover. Our report was modified to include a reference to another auditor. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The financial statements of the University of Northern Iowa Foundation were audited by another auditor, as described in our report on the University's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters reported on separately by the other auditor.

Internal Control Over Financial Reporting

Management of the University of Northern Iowa is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the University's financial statements will not be prevented or detected and corrected on a timely basis.

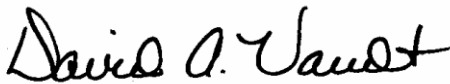
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which will be reported to management in a separate departmental report.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the University of Northern Iowa, citizens of the State of Iowa and other parties to whom the University of Northern Iowa may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the University of Northern Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 30, 2012

University of Northern Iowa

Schedule of Findings

Year ended June 30, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Capital Assets – The University has a capital asset system to track all assets over the capitalization thresholds and to calculate depreciation for the assets. The University employs a full time staff person to maintain the system. Concerns with the current procedures and the capital asset system include:

- a. Construction in Progress - The construction in progress lead schedule did not reconcile to the capital asset records maintained in the University's system.
- b. Depreciation - Depreciation was taken on items still listed as construction in progress as well as on one asset which had yet to be placed in service. Computer calculations for depreciation were not reviewed for accuracy resulting in a misstatement of depreciation expense for several assets.

Recommendation – The University should ensure reconciliations are prepared for all capital asset classes and depreciation calculations are reviewed to ensure depreciation is only taken on items placed in service.

Response - The University will implement procedures to ensure all capital assets are reconciled and reviewed appropriately for inclusion in the University's financial statements.

Conclusion – Response accepted.

(B) Student Information System - In July 2011, the University implemented the student accounts receivable module of its new PeopleSoft student information system (SIS). The SIS was designed to handle all aspects of the following student experiences at the University:

- Registration for classes.
- Applying for financial aid and posting aid awarded to student accounts.
- Billing tuition, fees, room and board and other charges incurred by students.
- Allowing students to view their accounts and pay their bills on-line.

SIS accounts receivable records are maintained in a subsidiary ledger. The SIS exports information from the subsidiary ledger to the Oracle general ledger system in summary batch postings. The detail to support the summary batch posting totals is maintained in the SIS subsidiary ledger. The information can be retrieved by querying SIS, running established reports or requesting a report be written to extract the information.

University of Northern Iowa

Schedule of Findings

Year ended June 30, 2012

Concerns with the current procedures include:

- Because the system was not fully set up when it was implemented and the resulting postings did not provide reasonable results, journal entries were posted and reversed multiple times to record the information correctly. The first successful posting of SIS student accounts receivable information occurred in March 2012, nine-months after the system was implemented. The posting for that period of time consisted of a single summary batch posting. As a result, it was necessary to query SIS or request a special report be compiled to obtain support for the journal entries.
- A report from the SIS subsidiary ledger to reconcile the total student accounts receivable balance reported in the University general ledger system was not available.
- The University brought forward old student accounts receivable balances from the legacy student accounts receivable system to the new SIS system. Balances older than two years were not previously included in gross collectable student accounts receivable for financial reporting purposes on the University's Statement of Net Assets. These balances were included in the student accounts receivable balance in the SIS. To properly reflect collectable accounts receivable for financial reporting purposes, the University posted a manual entry to record a large allowance for doubtful accounts for the previously excluded balances.
- The June 30, 2012 bank reconciliation for the University's cash account had an unresolved variance of approximately \$500,000. In October 2012, we identified the variance and brought it to the attention of University officials. According to University staff, the problem is related to the implementation of the SIS. The cash receipts vouchers do not include all the receipts included on the bank statements, such as E-checks. University staff is still working on correcting this problem. The variance was resolved for audit purposes.

Based on the shortcomings identified, it is our conclusion the system was not fully set-up or tested prior to implementation.

Recommendation – The University should develop the necessary reports to ensure reconciliations are performed to ensure the data posted to the SIS is complete and reconciles to the information posted to the University general ledger system, data entered into the SIS is accurate and recorded to the proper student account and support is maintained for entries made to correct posting errors.

University of Northern Iowa

Schedule of Findings

Year ended June 30, 2012

Response - The University acknowledges reports from the SIS should be available to facilitate the reconciliation process; such reports are currently in development and should be completed for FY 2013 reconciliations. The University will enhance procedures to ensure data entered in the SIS is accurate and recorded to the proper student accounts. The University will further evaluate the reports used to ensure all receipt activity is properly documented and available for bank reconciliation purposes.

Conclusion – Response accepted.